11.3 PRODUCT DECISIONS

11.3.1 Introduction

Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". It can be argued that product decisions are probably the most crucial as the product is the very epitome of marketing planning. Errors in product decisions are mass. These can include the imposition of a global standardized product where it is inapplicable, for example large horsepower tractors may be totally unsuitable for areas where small scale farming exists and where incomes are low; devolving decisions to affiliated countries which may let quality slip; and the attempt to sell products into a country without cognizance of cultural adaptation needs.

The meaning of the term "product" from three different perspectives: the manufacturer, the consumer, and the public.

In essence, the term "product" refers to anything offered by a firm to provide customer satisfaction, be it tangible or intangible. It can be a single product, a combination of products, a product-service combination, or several related products and services.

It normally has at least a generic name (e.g. banana) and usually a brand name (e.g. Cadbury). Although a product is normally defined from the perspective of the manufacturer, it is also important to note two other points-of-view-those of the consumer and another relevant publics.

11.3.2 Classification of Products

1. Consumer goods versus industrial goods, and
2. Goods products (i.e. durables and nondurables) versus service products.

Consumer Goods and Industrial Goods

The traditional classification of products is to divided all products as being either consumer goods or industrial goods. When we purchase products for our own consumption or that of our family with no intention of selling these products to others, we are denoting to consumer goods.

Conversely, industrial goods are purchased by an individual or organization in order to modify them or simply distribute them to the ultimate consumer in order to make a profit or meet some other objective.

Classification of Consumer Goods

A classification used in marketing separates products targeted at consumers into three groups : **convenience, shopping, and specialty.**

(a) **A convenience good** is one that requires a minimum amount of effort on the part of the consumer. Extensive distribution is the primary marketing strategy. The product must be available in every conceivable outlet and must be easily accessible in these outlets.

(b) In contrast, consumers want to be able to compare products categorized as **shopping goods**. Automobiles, appliances, furniture, and homes are in this group. Shoppers are willing to go to some lengths to compare values, and therefore these goods need not be distributed so widely. Although many shopping goods are nationally advertised, often it is the ability of the retailer to differentiate itself that creates the sale. The differentiation could be equated with a strong brand name, such as Sears Roebuck or Marshall Field; effective merchandising; aggressive personal selling; or the availability of credit.

(c) **Specialty goods** represent the third product classification. From the consumer's perspective, these products are so unique that they will go to any lengths to seek out and purchase them. Almost without exception, price is not a principle factor affecting the sales of specialty goods. Although these products may be custom-made (e.g., a hairpiece) or one of- a-kind (e.g., a statue), it is also possible that the marketer has been very successful in differentiating the product in the mind of the consumer.

Classification of Industrial Goods

Consumer goods are characterized as products that are aimed at and purchased by the ultimate consumer.

Although consumer products are more familiar to most readers, industrial goods represent a very important product category, and in the case of some manufacturers, they are the only product sold a more insightful classification for industrial products.

(a) Fanns, forests, mines, and quarries provide **extractive products** to producers. Although there are some farm products that are ready for consumption when they leave the farm, most farm and other extractive products require some processing before our chase by the consumer.

(b) A useful way to divide extractive products is into **farm products and natural products,** since they are marketed in slightly different ways.

(c) **Manufactured products** are those that have undergone some processing. The demands for manufactured industrial goods are usually derived from the demands for ultimate consumer goods. There are a number of specific types of manufactured industrial good.

(d) **Semi-manufactured goods** are raw materials that have received some processing but require some more before they are useful to the purchaser. Lumber and crude oil are examples of these types of products. Since these products tend to be standardized, there is a strong emphasis on price and vendor reliability.

(e) **Process machinery (sometimes called "installations")** refers to major piece of equipment used in the manufacture of other goods. This category would include like physical plant (boilers, lathes, blast furnaces, elevators, and conveyor systems), The marketing process would incorporate the efforts of a professional sales force, supported by engineers and technicians, and a tremendous amount of personalized service.

(f) **Equipment** is made up of portable factory equipment (e.g., trucks, fire extinguisher) and office equipment (e.g. computers, copier machines). Although these products do not contribute directly to the physical product, they do aid in the production process.

(g) **Supplies and Service** do not enter the finished product at all, but are nevertheless consumed in conjunction with making the product. Supplies would include paper, pencils, fuel oil, brooms, soap, and so forth. These products are normally purchased as convenience products with a minimum of effort and evaluation. Business services include maintenance (e.g. office cleaning), repairs (e.g. plumbing), and advisory (e.g. legal).

Product Level

1. **Core Benefit :** The fundamental need or want that consumers to satisfy by consuming the product or service. This is the basic product and the focus is on the purpose for which the product is intended. For example, the need to process digital images.
2. **Generic Product :** This represents all the qualities of the product. For a warm coat this is about fit, material, rain repellent ability, high-quality fasteners, etc.
3. **Expected Product :** The set of attributes or characteristics that buyers normally expect and agree to when they purchase a product. For example, the computer is specified to deliver fast image processing and has a high-resolution, accurate colour screen.
4. **Augmented Product :** The inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its competitors. For example, the computer comes pre-loaded with a high-end image processing software for no extra cost or at a deeply discounted, incremental cost.
5. **Potential Product :** This includes all the augmentations and transformations a product might undergo in the future. To ensure future customer loyalty, a business must aim to surprise and delight customers in the future by continuing to augment products. For example, the customer receives ongoing image processing software upgrades with new and useful features.

The competition between businesses focuses mainly on the distinctiveness of the Augmented Product according to Philip Kotler. It is about the perception a consumer experiences when purchasing a product and it is not so much about value. He states : **"Competition is determined not so much by what companies produce, but by what they add to their product in the form of packaging, services, advertising, advice, delivery (financing) arrangements and other things that can be of value to consumers".**

For production companies it is important to deliver products in an upward trend from 'Core Product' to 'Augmented Product' and to have the potential to grow into the 'Potential Product'. Under the guise of stagnation means decline, innovative companies such as Philips and Volkswagen focus on the latter category.

Determine of Product Objective

- Finding new uses for established products
- Using excess capacity
- Maintaining or improving market share
- Developing a full line of products
- Expanding a product's appeal to new market segments

11.3.3 The Product Plan

Product planning is the process of creating a product idea and following through on it until the product is introduced to the market. Additionally, a small company must have an exit strategy for its product in case the product does not sell. Product planning entails managing the product throughout its life using various marketing strategies, including product extensions or improvements, increased distribution, price changes and promotions.

Product Planning Process

1. Exploration : Product planning begins with the generation and formulation, of ideas or concepts for new products. The product ideas may come from sales persons who are in constant touch with the needs and desires of consumers. Middlemen, research and development department, trade and technical journals, consumers, trade associations, chambers of commerce, government agencies, research laboratories and executives can be other fruitful sources of product ideas.

New ideas may also emerge from individual innovators, suggestion schemes, marketing research, cost studies, service organizations, etc. At this stage, the products of competitors, institutes and allied products should also be considered.

2. Screening : This stage involves a preliminary comparison and evaluation of product ideas to select the most promising idea which warrants further consideration. A large number of ideas may be available. It is necessary to eliminate the ideas which have no potential. Careful screening helps to avoid wastage of time and resources in impracticable or uneconomical ideas.

A clear understanding of company objectives and facilities is essential for successful screening. This will help to reject the ideas which are inconsistent with the strategy and resources of the enterprise.

In recent years, leading companies have developed specific criteria for screening. Such criteria consist of :

- Profitability requirements over a period of time;
- Annual value of production;
- Unit profit margin;
- New capital required;
- Use of existing distribution network, etc.

3. Detailed Business Analysis : Those ideas and concepts which survive the screening stage are put to rigorous economic evaluation. The technical and economic factors involved in the ideas are analysed in sufficient detail to judge the commercial viability and technical feasibility. A statement of expected costs, sales and profits over a period of time is prepared. Business analysis may also involve some preliminary testing and analytical studies which is known as concept testing.

4. Development : At this stage, a design or specification of the product is prepared. The product idea is given a practical shape in the form of a working model or prototype. The idea on paper is converted into a physical product. The prototype is tested in the laboratory to ensure that it meets all technical specifications.

5. Test Marketing : A sample of the product is tested in a selected market to find but the reactions or responses of consumers. The working model or prototype is produced in a limited quantity and it is tested in the market before starting full scale production.

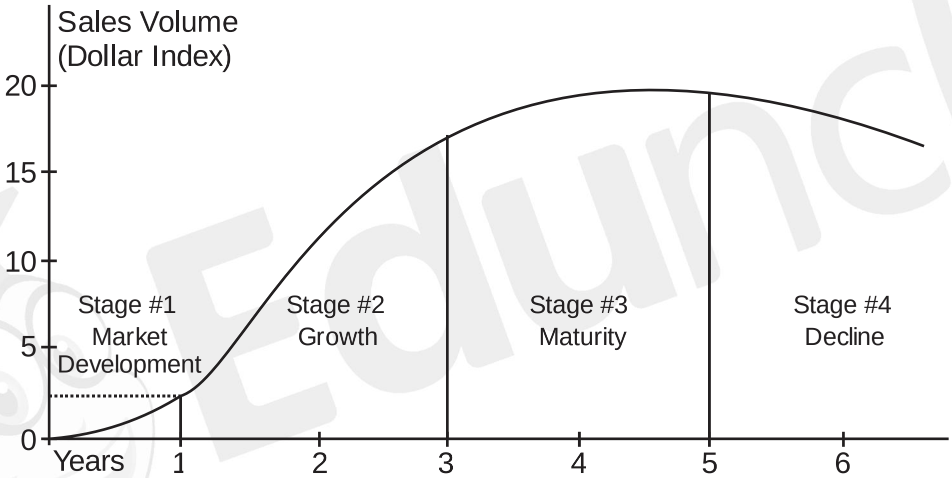
On the basis of the feedback from consumers, necessary improvements (redesigning) are made in the product. Test marketing is a vital phase of product development as it helps to "tie up the loose ends" before launching the product in the market.

6. Commercialization : In this final stage, the product is actually introduced in the market on a full scale. The pricing, channels and promotional methods are finalised. The product is fully integrated into the company's normal operations and it no longer remains a new product.

11.3.4 The Product Life Cycle

A company has to be good at both developing new products and managing them in the face of changing tastes, technologies, and competition.

The five stages of the PLC and their components can be defined as follows : Product development: the period during which new product ideas are generated, operationalized, and tested prior to commercialization. The Impact Marketing Mix as Follows :



1. Introduction : The period during which a new product is introduced. Initial distribution is obtained and promotion is obtained.

- **Product :** Product Branding and Quality level established and Intellectual Property Protection such as patent and trademark obtain.
- **Pricing :** Pricing may low penetration pricing to build Market Share rapidly, or high skim pricing to recover development costs.
- **Distribution :** Distribution is selective Until Consumer show acceptance of the products.
- **Promotion :** Promotion is aimed at innovators and early adopters. Marketing communication seeks to build product awareness and educate potential consumer about the product.

2. Growth : The period during which the product is accepted by consumers and the trade. Initial distribution is expanded, promotion is increased, repeat orders from initial buyers are obtained, and word-of-mouth advertising leads to more and more new users.

- **Product :** Quality is Maintain and additional features and support service is added.
- **Pricing :** Pricing is maintained as the firm enjoy increasing demanded with little competition.
- **Distribution :** Distribution Channel are added as demand increase and customers accept the product.
- **Promotion :** Promotion is aimed at a border audience.

3. Maturity : The period during which competition becomes serious. Towards the end of this period, competitors' products cut deeply into the company's market position.

- **Product :** Products features may be enhanced to differentiate the product from that to competitors.
- **Pricing :** Pricing may be lower because of the new competition.
- **Distribution :** Distribution becomes more intensive and incentives may be offered to encourage preference over competing products.
- **Promotion :** Promotion emphasizes Product differentiation.

4. Decline : The product becomes obsolete and its competitive disadvantage result in decline in sales and, eventually, deletion.

- Maintain the product possibility rejuvenating it by adding new features and finding new uses.
- Harvest the product - reduce cost and continue to the offer it, possibly to loyal niche segment.
- Discontinue the product, liquidation remaining the inventory or selling it to another firm that is willing to continue the product.

11.3.5 Product Mix

Product mix or product assortment refers to the number of product lines that an organization offers to its customers.

Product line is a group of related products manufactured or marketed by a single company. Such products function in similar manner, sold to the same customer group, sold through the same type of outlets, and fall within a same price range.

Product mix consists of various product lines that an organization offers, an organization may have just one product line in its product mix and it may also have multiple product lines. These product lines may be fairly similar or totally different, for **example** - Dish washing detergent liquid and Powder are two similar product lines.

An organization's product mix has following four dimensions :

(a) Width,
(b) Length,
(c) Depth, and
(d) Consistency.

(a) Width : The width of an organization's product mix pertains to the number of product lines that the organization is offering.

(b) Length : The length of an organization's product mix pertains to the total number of products or items in the product mix.

(c) Depth : The depth of an organization's product mix pertains to the total number of variants of each product offered in the line. Variants includes size, color, flavors, and other distinguishing characteristics.

(d) Consistency : The consistency of an organization's product mix refers to how closely related the various product lines are in use, production, distribution, or in any other manner.

Product Mix Decision

Product mix decision refers to the decisions regarding adding a new or eliminating any existing product from the product mix, adding a new product line, lengthening any existing line, or bringing new variants of a brand to expand the business and to increase the profitability.

(a) **Product Line Decision :** Product line managers take product line decisions considering the sales and profit of each items in the line and comparing their product line with the competitors' product lines in the same markets. Marketing managers have to decide the optimal length of the product line by adding new items or dropping existing items from the line.

(b) **Line Stretching Decision :** Line stretching means lengthening a product line beyond its current range. An organization can stretch its product line downward, upward, or both way.

1. **Downward Stretching** means adding low-end items in the product line, for example in Indian car market, watching the success of Maruti-Suzuki in small car segment, Toyota and Honda also entered the segment.
2. **Upward Stretching** means adding high-end items in the product line, for example Maruti-Suzuki initially entered small car segment, but later entered higher end segment.
3. **Two-way Stretching** means stretching the line in both directions if an organization is in the middle range of the market.

(c) **Line Filling Decision :** It means adding more items within the present range of the product line. Line filling can be done to reach for incremental profits, or to utilise excess capacity.

11.3.6 Product Strategies

Product planning should be an ongoing process that consistently evaluates existing products, modifies where necessary, deletes products that no longer contribute to the firm, and introduces new products. In general, there are two product strategy issues :

(i) Approaches to The Market

(ii) Key Product Decisions

(i) Approaches to the Market : Primary task of a product is to facilitate the success of a particular market strategy. A market strategy delineates what the seller wants to accomplish relative to buyers. Strategy is partly based on the approach used to represent the product. There are three general approaches, each of which may change during the life of the product.

(a) Product differentiation is used where a marketer chooses to appeal to the whole market by attempting to cater to the particular desires of all the buyers who hopefully would prefer his brand .

(b) Market extension is a second approach available to the product manager. This entails attracting additional types of buyers into the market or discovering and promoting new uses of the product.

(c) Market segmentation is the final approach. As discussed in an earlier chapter, segmentation is identifying a group of consumers that tend to respond to some aspect of the market mix in a similar way.

(ii) Key Element of Product Decision : With every product, regardless of where it is in its lifecycle, there are certain key decisions that must be made, perhaps repeatedly. These decisions include specifying product features, package design, branding decisions, establishing related services, and legal considerations.

(a) **Product Features :** Product features include such factors as form, color, size, weight, odor, material, and tactile qualities.

(b) **Branding :** Any brand name, symbol, design, or combination of these constitutes a branding strategy. The primary function of the brand is to identify the product and to distinguish it from those of competitors. In addition, from the perspective of the buyer, it may simply be consistent quality or satisfaction, enhance shopping efficiency, or call attention to new products.

(c) **Related Services :** Behind every product is a series of supporting services, such as warranties and money-back guarantees. In many instances, such services may be as important as the product itself. In fact, at times it is difficult to separate the associated services from the product features. Consequently, companies must constantly monitor the services offered by the company and its competitors.

Although there are a wide range of supportive services, the following are most prevalent :

1. Credit and Financing : With the increased acceptance of debt by the consumer, offering credit and/or financing has become an important part of the total product. For certain market segments and certain products, the availability of credit may make the difference between buying or not buying the product.

2. Warranty : There are several types of durable products, retail stores, and even service products where warranties are expected. These warranties can provide a wide array of restitution, with a very limited warranty at one end of the continuum and extended warranties at the other. An example of the former is a VCR manufacturer that provides a 3D-day warranty on the motor drive and no other coverage.

The Craftsman tools division of Sears Roebuck reflects the other extreme. A broken shovel will be replaced, no questions asked, after a full summer of use. A good jewelry store has a warranty backing up every diamond ring they sell.

3. Money-Back Guarantees : The ultimate warranty is the money-back guarantee. To the customer, a money-back guarantee reduces risk almost totally. There are certain market segments (e.g., ~own risk takers) that perceive this service as very important. It is obvious that this service is effective only if the product is superior and the product will be returned by only a few people. Extensive research should support this decision.

4. Delivery, installation, training, and service. Products that tend to be physically cumbersome or located far from the customer might consider delivery (free or a small charge) to be an integral part of the new product. Very few major appliance stores, lumberyards, or furniture stores could survive without provisions for this service.

Packing

Considering the importance placed on the package, it is not surprising that a great deal of research is spent on motivational research, color testing, psychological manipulation, and so forth, in order to ascertain how the majority of consumers will react to a new package. Based

Q. *Which of the following is not a reason for the failure of new products ?* ***(Dec. 2015) P-II***

(1) Good idea but overestimated market size.

(2) Correctly positioned new product, not promoted effectively or overpriced.

(3) Development costs are lower than or equal to estimated or expected.

(4) Competitors fight back harder than expected.

Ans. *(3)*

Q. *Match the items of List-I with List-II where the PLC curve patterns are given for different categories :* ***(Dec. 2015) P-II***

	List-I		***List-II***
(a)	*Product category*	*(i)*	*One of several variant shapes*
(b)	*Product forms*	*(ii)*	*Longest PLC*
(c)	*Products*	*(iii)*	*Standard PLC*
(d)	*Branded Products*	*(iv)*	*Short or long PLC*

Codes :

	(a)	***(b)***	***(c)***	***(d)***
(1)	*(iii)*	*(iv)*	*(ii)*	*(i)*
(2)	*(i)*	*(ii)*	*(iv)*	*(iii)*
(3)	*(iv)*	*(ii)*	*(i)*	*(iii)*
(4)	*(ii)*	*(iii)*	*(i)*	*(iv)*

Ans. *(4)*

Q. *Which concept of marketing is based on the assumption that superior products sell themselves ?* ***(June 2012) P-III***

(A) *Production* *(B)* *Marketing*
(C) *Societal* *(D)* *Product*

Ans. *(D)*

Q. ***Assertion (A) :*** *High customer expectations lead to dissatisfaction as product performance never matches them.*

Reason (R) : *Product performance is always customer specific.*

Codes : ***(Dec. 2012) P-III***

(A) *Both (A) and (R) are correct.*
(B) *Both (A) and (R) are incorrect.*
(C) *(A) is correct, but (R) is incorrect.*
(D) *(R) is correct, but (A) is incorrect.*

Ans. *(B)*

Q. *The description of a product's quality, features, style, brand name and packaging identifiers the* ***(June 2013) P-III***

(A) *Actual product* *(B)* *Augmented product*
(C) *Core product* *(D)* *Tangible product*

Ans. *(D)*

Q. *At which stage of product-life-cycle are the pricing decisions most complex ?* ***(Dec. 2013) P-III***

(A) *Decline* *(B)* *Growth*
(C) *Introduction* *(D)* *Maturity*

Ans. *(D)*

Q. *The people to adopt a new product first are called* ***(June 2014) P-II***

(A) *Early adopters* *(B)* *First users*
(C) *Initial adopters* *(D)* *Innovators*

Ans. *(D)*

Q. *For most people, the purchase of cheese for daily use can be described as a*
(Dec. 2014) P-II

(A) Completely novel buy (B) Modified re-buy
(C) Routine re-buy (D) High involvement product

Ans. (C)

Q. *Rational buying motives that determine purchase decisions are mostly based on*
(Dec. 2014) P-II

(A) Price factor (B) Psychological factors
(C) Quality of product (D) Advertisement

Ans. (B)

Q. *After conducting the business analysis for developing a new product, a company must do*
(June 2014) P-III

(A) Idea generation (B) Product positioning
(C) Product development and testing (D) Test marketing

Ans. (C)

Q. **Assertion (A) :** *In product concept, focus is on innovating and improving products.*
Reason (R) : *In selling concept, consumers are persuaded to buy products.*
Codes : **(Dec. 2014) P-III**

(A) Both (A) and (R) are true. (B) (A) is true, but (R) is false.
(C) (A) is false, but (R) is true. (D) Both (A) and (R) are false.

Ans. (A)

Q. *Select the phases of Product Life Cycle :* **(Dec. 2014) P-III**

1. Initiation 2. Decline
3. Boom 4. Introduction
5. Maturity 6. Growth

Codes :

(A) 1, 3, 5, 6 (B) 1, 2, 3, 4
(C) 4, 6, 5, 2 (D) 2, 3, 5, 6

Ans. (C)

Q. *Which of the following is not a product-mix strategy ?* **(Dec. 2014) P-III**

(A) Trading up (B) Alteration
(C) Simplification (D) Value addition

Ans. (D)